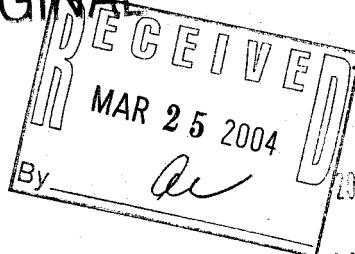




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American Water

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AZ CORP COMMISSION  
DOCUMENT CONTROL

Administration

Mr. William Mundell  
Commissioner  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007-2996

Your ref Ray L. Jones  
Phone 623-445-2411  
Fax 623-445-2451  
E-Mail rjones@amwater.com

March 25, 2004

Arizona-American Water Company's Rate Case Application;  
Docket Nos. WS-01303A-02-0867; WS-01303A-02-0868;  
WS-0130 3A-02-0869; WS-01303A-02-0870; W-01303A-02-0908

**Re: Desert Hills Water Quality**

Dear Commissioner Mundell:

I am very pleased to inform you that mid-March samples determined that nitrate levels in our Desert Hills service area have decreased to 8.3 mg/l and are now in compliance with the maximum contaminate level (MCL) of 10 mg/l for nitrates. Since mid-February, Arizona-American has continued to test the Desert Hills service area wells every two weeks. The reduced nitrate level has been confirmed by nine (9) samples on three (3) separate sampling events. In coordination with the Arizona Department of Environmental Quality, customers are now being informed about the recent nitrate level declines and that their water meets all drinking water standards.

With this change in status for the Desert Hills system, Arizona-American is again in full compliance with water quality regulations in all of its systems throughout the State of Arizona.

Arizona Corporation Commission

**DOCKETED**

MAR 26 2004

As previously communicated, we take our obligation to provide drinking water meeting all regulatory requirements to our customers very seriously. Throughout this unexpected and unavoidable situation, Arizona-American has endeavored to provide open and honest communication to our customers, the Department of Environmental Quality and the Arizona Corporation Commission. We hope we have met your expectation in this regard.

DOCKETED BY

While it appears that seasonal variation in water quality has quickly resolved this incident, we are committed to insuring that this situation is not repeated in the future. We are continuing, in an expedited manner, to implement our previously communicated plan to supplement the water supply in Desert Hills. We will continue to accelerate the addition of a new well and booster station and construction of 1,000 feet of 10-inch diameter interconnection pipeline. Once the pipeline connects the new well and booster station to the portion of the Desert Hills system that experienced high nitrates, we will be able to provide water meeting all regulatory requirements even if nitrates in the existing wells again increase above the MCL of 10 mg/l.

Arizona American Water

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Page 2

If you have any questions about our water service in Desert Hills or any other area, please call me directly at (623) 445-2411.

Sincerely,



Ray L. Jones  
President